INVESTMENT COUNSEL

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"The use of money is all the advantage there is in having money."

"Think of saving as well as of getting."

"Want of care does us more damage than want of knowledge."

BENJAMIN FRANKLIN

SCUDDER, STEVENS & CLARK

INVESTMENT COUNSEL

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The following pages, written by a firm which does not sell securities, bring out in a manner not before attempted certain principles applicable to the problem of investing for which many are seeking a satisfactory solution.

WHAT IS CONSERVATISM?

In the year 1913, a certain man who prided himself on his conservatism invested all his capital, $100,000, in high grade, long-term bonds. His income was approximately $5,000. Seven years later, in 1920, his income was still $5,000 and the face value of his capital still $100,000. But measured in purchasing power there was a great difference.

When he tried to spread his income over his living he found that things cost more than double what they did in 1913. In actual purchasing power of 1913 dollars his income had shrunk to $2,050. Through increased commodity prices, in other words, depreciation of the dollar, he had been cheated out of half his purchasing power just as if he had lost so many dollars.

Was this the reward to be expected by the conservative investor, the man who buys only high grade bonds, the man who above all else

desires security of principal and stability of income? What had he done, this man who in 1913 thought he was investing so conservatively, to bring down upon himself such a blow?

He had speculated. He had placed all his capital in a single class of security, bonds, which react primarily to two factors, money rates and commodity prices; and he had selected all long-term bonds. When the trend of money rates and commodity prices turned definitely upward he continued to hold his long-term bonds until in 1920 they had depreciated in market value approximately 25 per cent., not because they were not sound bonds,—they were,—but because they were yielding less than the going money rate. He had speculated just as surely as if he had placed all his money in common stocks and at a time when the adverse factor of rising commodity prices, of which he took no account, worked sorely against him. While his bonds will undoubtedly be paid in full at maturity it is very doubtful if the dollars he receives then will be relatively worth as much as the dollars he gave in 1913. A portion of his principal as well as income will then have been lost.

WHAT IS SAFETY?

The investor must have a steady or stable income. Is an income of $5,000 a steady income when one year the dollar is 100% effective and another year only 50% effective? When this year a dollar will buy a whole sack of flour and next year only half a sack? Is a principal invested safely which returns such an income?

The dollar cannot be eaten or worn. It is good only for what it will buy and the investor is interested only in its buying power. A steady or maintained buying power that will enable him to continue to enjoy the associations and comforts he has always enjoyed is what the investor desires primarily and fundamentally; and if his money is so invested that it does not produce at least this, it is not invested safely as to either income or principal.

Fifty years ago our fathers and mothers got along very well without many things we

now regard as necessities. The man who had $5,000 a year in those days was comfortably well off, and could live very much better than the man of $5,000 income today. The explanation is chiefly in the fact that our standard of living today is much higher. If we are to enjoy even the same relative position in society that our parents occupied fifty years ago, we must have two or three times as much buying power as they had.

If the investor does no more than maintain, if he does not increase his buying power as the standard of living rises, he will not maintain his relative wealth. If he succeeds only in keeping his original number of dollars intact, he is steadily falling behind.

PRIMARY OBJECTIVE OF THE INVESTOR

The primary objective of the investor, therefore, is first to maintain his purchasing power in the face of a constantly varying and sometimes distressingly weak dollar; and second, to accumulate additional purchasing power in order to maintain, and, if possible, to better his relative position in society as the standard of living gradually increases. How will the investor go about the accomplishment of this object?

The investor can put his money to work in just two ways. He can lend it for use in business; that is, become a creditor of industry by buying bonds, mortgages, notes, etc. In this manner he secures a fixed dollar-income the purchasing power of which, however, is not fixed, but is greater or less according to whether the dollar buys more or less.

In the second place, he can put his money

to work by actually participating in business enterprises himself. He does this by acquiring a part interest in companies by buying shares,—common stocks. The purchasing power of an income from business profits, from common stocks, will vary still more than that of an income from bonds because not only does the buying power of each dollar vary, but the amount of dollar-income also varies according to whether business is prosperous or depressed. Neither available means of using his capital, therefore, is without defect. Neither bonds nor stocks return a fixed purchasing-power-income. Neither alone, therefore, produces the result desired.

These questions then arise. Under what conditions are bonds a desirable investment? Under what conditions are common stocks a desirable investment? Are conditions such that possibly some combination of the two classes of security might accomplish the desired result which neither can accomplish by itself? Let us examine the conditions which affect business and capital.

THE EFFECT OF CHANGING ECONOMIC CONDITIONS

Civilization is advancing. Business and industry are growing and expanding, certainly, but not steadily. We go ahead swiftly for a while and then we seem to go backward. All financial and industrial history appears to have occurred in distinct cycles which have consisted of four more or less distinct periods. These are the periods of Prosperity, Decline, Depression, and Improvement. They do not roll around regularly like the seasons, and their length or intensity cannot be measured or foretold. However, they do occur uniformly in the order named, and it is usually possible to know what particular period is at hand.

During a period of prosperity when industry and business are forging ahead, when competition is gradually diminishing, merchants and manufacturers raise their prices.

Wages increase. This lowers the purchasing power of the dollar, and consequently, of any fixed number of dollars. At such time the bond-holder, the creditor, the salaried man is apt to find himself in distress. When the crisis comes, however, with its slump and depression, when business is wary and hard to find, merchants, manufacturers and laborers meet stiff competition, costs and selling prices begin to fall, the dollar begins to buy more and the purchasing power of a fixed income increases. Then the man with fixed dollar-income finds his position improving.

How does the common stock act under varying conditions of the business cycle? During a period of prosperity and inflation when industry and business forge ahead, when competition is lessening, when prices are being raised, when each dollar is buying less, common stocks, which represent a participation in business and industry, appreciate in value and pay good dividends, regular and extra. The increased number of dollars received at such a time more than offsets the decreased purchasing power of each dollar. This is the time when the business man and the man who through stock

ownership participates in industry, have abundant purchasing power. When the crisis comes, however, and dividends fall off, even though the buying power of the dollar is increasing, the man who has all his capital in common stocks is apt to feel the pinch of a restricted income.

In 1915 began a period of prosperity and inflation which lasted with irregularities, until 1920. During that time commodity prices rose to a point where the purchasing power of the dollar, figuring 1915 as 100 c, dropped to the average of 41 c for the year 1920. The purchasing power of income from bonds dropped proportionately. Common stocks, however, during that time were returning regular dividends, extras in cash and stock, and were increasing in price. Thus the investor who had a substantial portion of his capital in common stocks felt no hardship from the decreased purchasing power of the dollar.

In 1921 a period of depression set in, industry deflated, stocks ceased paying extra and some passed their regular dividends. The value of the dollar, however, recovered from its low of 41 for 1920 to 75 for the

year 1921 and the investor who had a substantial portion of his capital in fixed-income-bearing securities (bonds or preferred stocks) felt no hardship when some of his dividends from stocks were cut down. This illustrates very clearly what happens in some degree during every cycle of changing business conditions.

Many investors have the idea that the fixed dollar-income means stable income and safety. We have seen that it does not. Many people believe that common stocks which return a variable dollar-income are unsafe. This is not true. Bonds and common stocks both return a variable purchasing-power-income, but as noted above, the purchasing power of the income from stocks contracts under the very conditions that allow the purchasing power of an income from bonds to expand, in other words, the true incomes from these two classes of securities react in opposite directions to the same set of conditions. Real safety, maintained purchasing power, true fixed income, therefore, can be had only by a scientific apportionment of capital between the two classes of security, loans which pay a fixed dollar-income, and

participations in enterprise which pay a variable dollar-income.

Since the growth and development of the resources and industry of our country are responsible for the increase in our standard of living, the only way for the investor to maintain his relative position in society is to have a share in that growth and development; in other words, to buy a share in the production of the country. This means participating, taking a share in the enterprise of the country by buying common stocks.

The "conservative" investor here throws up his hands and protests that common stocks are speculative. Buying them as he generally does, he is quite right. If he buys common stocks, they are usually few, each bought on its own individual merits and considered as a loss or gain by itself.

Any individual common stock, or bond for that matter, is a speculation. It is liable to deteriorate or become valueless. One out of every so many does. Life insurance companies lose money on individuals right and left. But they do not worry about that, they expect it. They plan to and they do make money on the total, however. The loss or

gain on an individual security is not of primary importance to the investor. It is the gain on the aggregate that counts.

Why is a Liberty Bond one of the safest securities in the world? It is an obligation of a country, wealthy and highly developed to be sure, but a growing country still, of vast resources and potential development, of wonderful future; it is a prior lien on the industry and enterprise of that country, not one industry but every industry. The investor who buys a scientifically diversified list of common stocks of the best companies in the country's basic industries is making his capital safe upon the very same principle that underlies the safety of Liberty Bonds.

On account of the fluctuating dollar and the ups and downs of business it is not safe for the investor to have all his capital in common stocks. To secure himself against the possibility of a feast one year at the price of a famine the next, he must, as explained above, have a certain proportion of his capital in bonds or their equivalent.

OFFENSIVE MEASURES

Correct apportionment of capital between loans to and participations in industry will substantially compensate for the fluctuating purchasing power of the dollar. It will also aid the investor somewhat to increase the number of dollars of his principal. The investor who goes no farther than this, however, has gone only half way. Offensive measures are as essential as defensive measures. Not only should adverse conditions be guarded against and counteracted, but favorable conditions should be prepared for and taken advantage of.

Experience shows that the yield on safe bonds has fluctuated substantially between 3% and 7%. Bond prices move with the cost of money. When money rates are at 7% they can do only two things; stay at 7% or move towards 3%. At such times new money that is put into bonds should go into long-term bonds so that the high rate will

be obtained over as long a period as possible. More important still, short-term bonds should be converted into long-term bonds at such a time. That is what the wise investor did during 1920 and 1921. When conditions are reversed and money rates are low, new money should go into short-term bonds. Long-term bonds which have appreciated in market price as money rates fell should then be changed into short-term bonds. The larger income from long-term bonds will by this operation be translated into an appreciated market price at which enough more short-term bonds can be bought to yield approximately the same number of dollars income. These operations in bonds which can be carried out whenever money rates approach their extreme will help increase the investor's principal.

With common stocks the problem is quite analogous. The movement to be taken advantage of is the rise and fall in price of common stocks with the ebb and flow of prosperity. Since, however, the investor's ability to maintain his relative wealth in spite of an increasing standard of living, is dependent upon his continued participation in business

and its benefits, it is advisable for him to divert only a certain proportion of his common stock fund to the purpose of profiting by the operation of the business cycle. In times of prosperity, a carefully determined proportion of the investor's common stocks should be translated into cash or its equivalent, bank acceptances, etc., which are subject to no depreciation as business falls off. When depression has arrived, the investor should shift this cash back into common stocks, which are then selling low and will appreciate as business returns to normal. These operations will substantially aid in increasing the investor's principal.

The question may well be answered here as to how the investor is to know when to make these changes. No ability to forecast is essential, in fact, the investor should not rely in the least on forecasts. He should act on known facts. No one knows when money rates or stocks have reached their high or their low points or whether the business cycle will be complete in four years or in ten, and it is not necessary to know. It is necessary only to know what the average man knows, whether we are in a

period of depression or a period of normal business and ordinary prosperity, whether money rates are high or low. Every man in the street would have said in 1919 that we were in a period of prosperity. The man who sold a proportion of his common stocks at any time during that year would have realized far above average prices. Every man in the street during 1921 recognized a period of depression. At any time during 1921 the investor could have bought common stocks at far below average prices. No further knowledge is essential. Extremely essential, however, is the courage to act according to common sense and ordinary good judgment at a time when the popular tendency is decidedly otherwise.

The master of a vessel trims his sails to take every advantage of the wind. If the wind changes, he retrims his sails. So it is with investing. If the investor wishes to maintain a straight course toward the accomplishment of his objective, he invests his capital so as to take the utmost advantage of existing fundamental conditions. Safety and progress lie not in using the same tactics regardless of conditions, but in changing tactics to meet conditions.

SELECTION OF SECURITIES

The importance of selection of securities, particularly common stocks, is evident. Contrary to the usual belief, however, it is a matter of secondary importance. Frequently we are questioned as to how it is that we have the special knowledge, skill or ability that enables us to advise investors better than other people can, or better than the investor can do for himself. We are not competent nor is anyone else competent with certainty to forecast the future of any individual company or industry. The most able judgment cannot say of two companies in equally good condition today that this one will be successful during the next ten years and the other will be unsuccessful.

It is necessary, therefore, to eliminate every possibility for error in the exercise of judgment by setting up mechanical safeguards wherever possible, and by following certain general rules which experience has shown to be sound.

If the insurance company insures just one healthy man thirty-five years old of certain habits and walk in life, it is speculating. But when it goes on and insures a hundred or a thousand men thirty-five years old, of good health, etc., it can be certain of a fair profit on its gross business.

Ninety per cent of the success of any company is due to its man power, its management. The investor must by all means follow the insurance company's principle, the law of averages, back a number of well-selected managements, and not risk too large an amount on any one no matter how healthy.

In selecting common stocks, first determine what industries underlie the prosperity of the country. Then out of this number investigate and determine the ones that give promise of substantial growth and prosperity over the next five or ten years. Choose then the best company in each selected industry, and buy its common stock. Only three considerations with reference to the individual company are of vital interest to the investor; first, the prospects of the industry; second, the present financial condition of the company; and third, the ability of its present

management as shown by statistics of earnings, etc., over the period during which the present management has existed. The purchase of any one common stock, no matter how good, is a speculation. Only the average is safe and sure. By scientific diversification as to industries, as to localities, and as to companies, the investor in effect buys a share in the production and growth of the country, and as the country prospers he will prosper.

Preferred Stocks, similar to bonds in their fixed income feature, are attractive only when they react to the same tendencies as bonds. Preferred stocks such as *American Car & Foundry*, *U. S. Steel*, and *National Biscuit*, fluctuate in price not with the earning power of the companies, but with the trend of interest rates. In 1921 the Steel Corporation earned no money, yet its preferred stock rose from 105 to 115 owing entirely to falling interest rates. In the same period *Packard Motor Car Preferred*, by no means a poor preferred as compared with many, paying dividends but earning no money, dropped approximately 15 points.

In times of depression a preferred stock

may pass its dividend, yet it does not share in the extra profits of prosperity. It lacks the security of a bond and shares the risk of a common stock. It is a compromise between a bond and a common stock calculated to attract both the conservative investor who wants a little higher yield and the non-conservative who wishes a little more security. Preferred stocks are generally sold to the public during a period of good earnings whereas the only time the investor should buy them if at all, is after they have demonstrated their ability to pass unscathed through a period of depression.

The attempt on the part of investors to obtain a larger income at the expense of safety generally results in a loss of principal far greater than the added income obtained. If a larger income is essential it is far better to dip into the principal directly and knowingly than suddenly to discover that part of the capital has vanished. Many Massachusetts investors have bought only stocks tax exempt in this state which has meant a concentration of locality and a lack of diversification as to industry. They have gained only a very slight increase, less than 7 cents

on each dollar of income, at the expense of losses in principal which would have paid this tax many times over. This small and probably temporary increase in income can never compensate for the almost certain loss which follows such total disregard of the fundamental principles of safety.

NEW LAMPS OR OLD?

The investor should make it his general rule not to buy new issues of either bonds or stocks, and in departing from this rule, he should exercise more than ordinary precaution. Three factors determine the real value of a bond, namely; security, yield and marketability. When a new bond is issued, only the first two factors are known. It has not yet been distributed; its marketability can be known only after the underwriting syndicate is closed, and the bond has had an opportunity to settle in the hands of the public. Except in times of a rapidly rising bond market, the new bond, a few months after its issue, can usually be bought under the issue price. This is because the sales effort has been withdrawn and the recent issue receives no more attention than the older seasoned issues. The seasoned bond is therefore usually more desirable.

The real value of a common stock depends

upon its earning power, which in turn depends upon the ability of the corporation's management. The ability of a new management has not been proved, and when there are dozens of corporations whose managements have proved their ability by passing safely through periods of depression,—almost any management can weather prosperous times—why should the investor choose an unproved one?

Many of the best companies in the country's basic industries list their securities on the stock exchanges. These companies must report at regular intervals to the governors of the exchanges and the deeds of their managements and their records are subject to the constant scrutiny of bankers and investors throughout the country. For this reason listed securities are usually preferable to unlisted, about which it is often difficult to learn anything. While the mere fact of listing does not make a security safe or desirable, it usually adds to its marketability. Mortgaged property is not so capable of being concealed or wasted away as are earnings, consequently a listed bond is not so essential as a listed stock. Marketability is of

the utmost importance in that it permits the investor to obtain cash or to shift his position readily whenever necessary without appreciable loss.

THE STRONG BOX DOES NOT PROTECT VALUE.

The investor is not in the business of buying and selling securities. He is not a trader. In buying a stock he realizes he is buying a partnership in industry and ordinarily he would no more sell his stock because of fluctuations in price than he would change his job every year. He does not go to the opposite extreme, however, and think that even the safest bond is so good he can put it away in his strong box and forget it.

Liberty Bonds and all other securities are subject to changing economic conditions against which the strong box affords no protection. Money rates, security prices, gold supply, taxes, special industrial conditions are matters for constant study and application to each investor's individual situation. The capital a man already has in securities usually bulks a great deal larger than the amount he

invests from time to time. It should therefore receive a far greater share of his time and thought than he gives to choosing the new security. Even when he is in the safest possible position financially, there is a certain minimum of attention the investor must give his holdings, else sooner or later a loss will result from neglect of this important work.

No one investment plan will fit every investor. Business circumstances, a man's earning power, his total capital, family holdings, the number of his dependents, insurance, and many other considerations may vary the proportion of stocks and bonds he should own. A productive man is himself part of his total capital and certain important principles that need not be taken up here should be applied in the treatment of this factor. While details may vary their application, the same principles of sound investing will underlie every successful plan.

A diagrammatic outline of the fundamental principles so far discussed will be found immediately following. The application of these principles to the investor's particular problem will be discussed on the succeeding pages.

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INVESTING—A PROFESSION

Our grandfathers lent money to men they knew, on property they knew about, or they bought an interest in something tangible, like land, a building, a ship, a cargo,—something they could see and judge the value of. In those days opportunities for general investment were limited; today investment opportunities are limitless.

The enormous development of our industries, the tendency toward greater and greater specialization, the growth of the corporate form of doing business, and the issuance of boundless varieties of securities have intensified the problem of the investor. He can no longer see his actual wealth, examine his collateral or judge its value. He sees only the token of wealth—the stock certificate or the bond. Even if he could visit all the properties of all the corporations in which he might be interested, he would still be unable to judge their values, appraise their

managements, or check their financial conditions.

Like law, medicine and engineering, investing has become a profession. Only continued, intensive study and training yield the knowledge and skill necessary to practice it successfully. Consequently, the man who is engaged chiefly in other affairs is rarely a skilful investor, often not even appreciating his true objective or the obstacles in the way of its attainment. Moreover, usually busy with his own work, he thinks of investing only when he has money to invest or when one of his securities has turned out badly. In view of his own preoccupation, therefore, and lack of financial knowledge, he seeks advice from persons who are better informed.

The investment banker, who knows more about security values than any other person accessible to the average investor, is the customary advisor. His chief function is underwriting, the financing of new enterprises and the refinancing of old. He buys from the corporation in need of capital its newly issued securities and resells them to investors. The difference between what he pays for his securities and what he sells them for is his profit.

The interests of the issuing corporation are opposed to those of the investor. When it is advantageous for the corporation to issue short-term bonds because money rates are high, it is for the same reason advantageous for the investor to buy long-term bonds. The corporation wants its money as cheaply as possible while the investor wants as much for his money as possible. Between these two the investment banker mediates, not as a disinterested judge nor even as a representative of just one of the parties at interest, but as a merchant interested in his profits, having a third viewpoint differing from each of the other two.

Corporations seeking capital and, more especially, individuals seeking investments, rely today on the investment banker for advice and information regarding a subject on which they are usually more or less ignorant, and he more or less expert. The time is not far distant when both corporations and investors will awake to the losses occasioned them by reason of such arrangement. It is not unreasonable to believe that the investment banker will in time become the representative solely of the financing corporation, that the investor will retain his own expert

representative, and the two experts will deal with each other in behalf of their respective clients on an equal footing.

The financing field has been so profitable that the big commercial banks, the National City Bank, the Guaranty Trust Company, and many others have entered it. Competition has become very keen. No one banker can possibly secure all the best issues, though undoubtedly each would like to do so. Salesmen must always have something to sell. Each banker, therefore, must float, along with the better, a certain number of poorer issues. This is forcing many investment bankers, as time goes on, to do a more and more speculative business from the point of view of their customers.

As a general rule the investor should buy seasoned listed securities. On these the banker's profit is only about ⅛ of a point, hardly enough to pay for bookkeeping, as compared with 2 to 5 points which he makes on newly issued securities. This forces him to specialize in the sale of new securities. If in addition he happens to be a specialist in bonds, it is not to his interest to educate his customer regarding the merits of common

stocks; and still further, if he deals only in public utility bonds, he is not likely to advise a customer that he already has enough of such bonds. Reputable merchants handle reliable merchandise. They do not aim, however, to handle unprofitable merchandise except as an aid in the sale of profitable, and they never point out to their customers a place where better merchandise can be secured for the same price, or where equally good merchandise can be secured at a lower price.

The individual circumstances and requirements of the investor which have much to do with what he should buy, receive as a rule only casual consideration, if any, on the part of the banker or his salesmen. They regard the investor as a person of means to whom it is their business to sell as much of their merchandise as possible. The better informed the investor, the harder it is for them to sell him the less desirable issues. Even these issues must be sold, however, and they are sold to the more ignorant investors. Having made the sale, the banker's interest usually ceases. If he watches the holdings of his customer at all, he does it primarily to avail

himself of opportunities for profitable exchanges or for reinvestment of the proceeds of maturing obligations, not for the purpose of protecting his customer.

It must not be inferred that the investment banker is the proximate cause of all the investor's losses. The present system of security distribution and the lack of understanding and education on the part of investors, are the causes. While the banker is a part of the system, he has been the best source of information and the best protection the investor has had. But since the investment of money has become so intricate that it is now a science, of which the investor usually has but slight knowledge, the merchandising system of distributing securities does not provide him with adequate protection.

The investor who consults his friends or acquaintances or a commercial banker finds this at best a haphazard way of obtaining information and advice. Such advice is usually off-hand, more or less desultory, and on individual securities rather than on fundamentals. These advisors can view the matter from the investor's standpoint, to be sure,

but they rarely have all the knowledge necessary to give competent financial advice. They go to no particular trouble to investigate or analyze, and as their services are gratuitous, there is no responsibility connected with their advising nor any obligation to give further advice if a situation changes. With the broker, advising is merely incidental to his specialized work of executing orders on the exchanges. He has a knowledge of securities, to be sure, but he watches economic conditions and developments in different industries and companies from a speculative rather than from an investment viewpoint.

INVESTMENT COUNSEL

The firm of Scudder, Stevens & Clark has become the pioneer in a new field. Investing is our profession. We have no securities on our shelves to sell, no salesmen. The investor comes to us for information and advice on financial matters just as he consults his physician or his lawyer, and since our fee is the same irrespective of the security or kind of security involved, it is obviously to our interest to give the very best advice in every case.

Competent medical advice can be given only after a diagnosis. Before the physician prescribes he will inquire as to the symptoms, look at his patient's tongue, take his pulse, and if the patient is a stranger, he will probably make a physical examination. Then he can prescribe intelligently. Competent financial advice can be given the investor only after a careful study of his individual financial situation. A security high

grade in itself and desirable for one person to own may be entirely unsuited to the needs of another.

Our first work for a client is usually to make a complete analysis of his case. We ask him to give us all the necessary facts, that we may have the fullest opportunity for intelligent study so as to diversify, correlate and proportion his securities in view of his entire situation and individual requirements. This means far more than selecting safe securities.

The man who is about to build a house may himself be able to select good lumber and good brick. The lumber merchant knows lumber and the brick manufacturer knows brick. But the home builder does not draw his own plan or advise with the lumber or brick dealer concerning it. He consults an architect who knows how to plan a house embodying all his client's individual requirements, how to plan the proper foundation for such a house, how to give the utmost in room, convenience, utility and beauty that can be obtained, how to let the contracts and where to buy the materials to the best advantage. Our work is the planning and building of a

sound financial structure for each individual client. The better we know his requirements, the more able we are to help him build what he wants to build.

When our analysis is complete, a written report is given the client so that he has something definite to study and refer to. After a conference at which the report is discussed and explained more completely than is possible in writing, we proceed to help him into the position agreed upon.

Our most important work thereafter is to maintain a constant watch over his holdings, to study fundamental economic and industrial conditions that may affect him, and to advise whenever he should make changes in order to maintain a sound position. No matter how good the individual securities on a list may be, they must not be considered as necessarily permanent investments. Old companies go down hill, whole industries decline; new companies and industries come to the fore. Therefore it is vastly important that as much time in proportion be spent watching the securities already owned as is usually given to the investigation of a new purchase. This work is equally as import-

ant and valuable to the expert as to the inexpert investor.

For counsel, for the original analysis and report, and for continuous care and attention, our fee is a small percentage on each purchase or sale made on our advice. If there are no recommendations, or if our advice is not taken, there is no charge, so that our client may consult us as freely and as often as he likes. We are not agents or trustees and in no degree therefore do we deprive our client of the freedom of exercising his own judgment.

In the working out of his problem, a personal professional relationship between the investor and counsel is essential. It makes possible the intimate study of the peculiarities and needs of the individual case and the proper treatment thereof. It protects the investor from acting upon emotion and impulse rather than reason. It induces thought and action at the proper time, overcoming that inertia and procrastination so common and so frequently disastrous. The success we have achieved for our clients has been due largely to a realization on their part of the fundamental economic principles under-

lying sound investment, and their co-operation with us in the application of these principles to their individual problems.

The members of the firm will be glad to discuss with the reader in person or by letter any phase of this subject or to answer any questions. They would particularly appreciate a personal call from anyone who is interested.

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